



April 2009

## **Aviation Trends – How Will U.S. Airports Be Impacted?**

**FAA Forecast Conference**  
Bob Hazel



# Topics

**Different Measures of Success for Airlines and Airports**

**Market Trends Impacting Airports**

**The New Risk Profile**

**When Will Traffic Return?**



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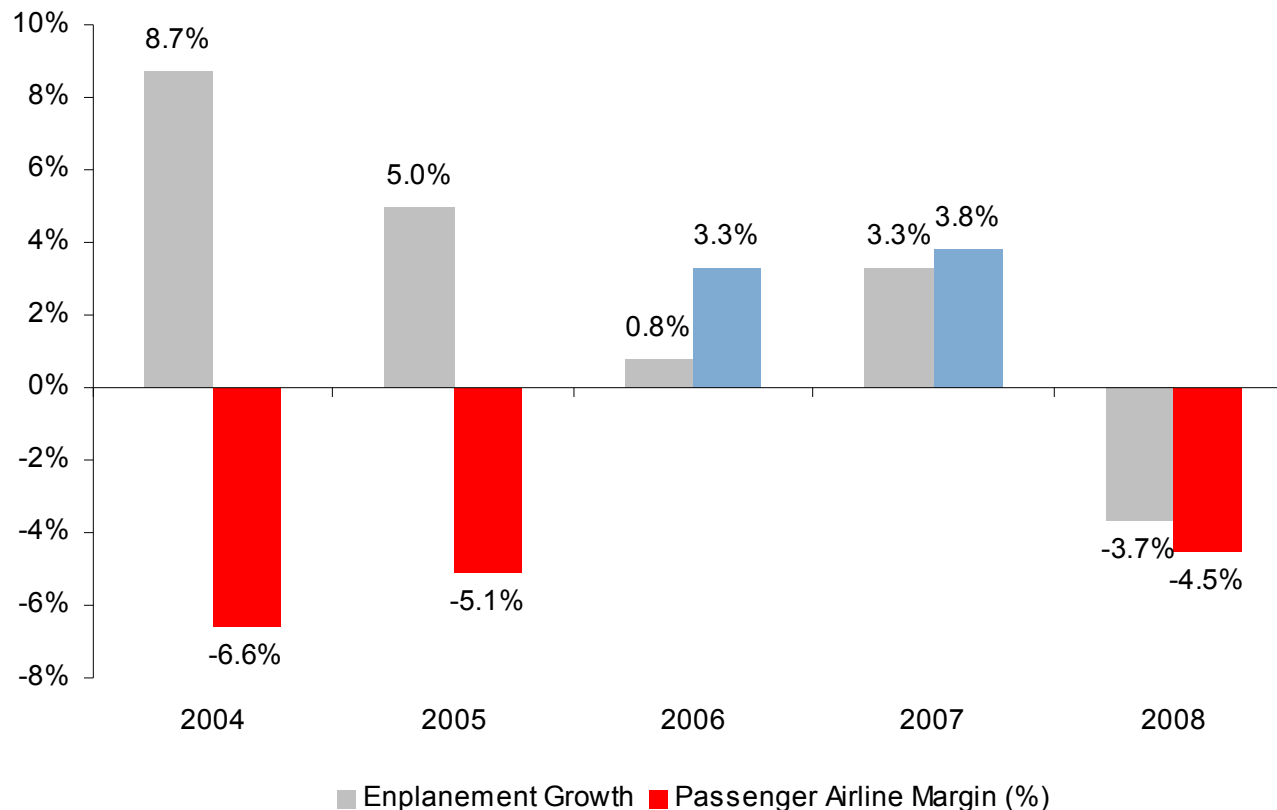
# DIFFERENT MEASURES OF SUCCESS

## Different Measures of Success

U.S. airports focus on the number of passengers; airlines focus on profitability

Good years for airlines are not necessarily good years for airports, and vice versa

### Passenger Growth and Passenger Airline Operating Margin



Sources: ATA and BTS, and airlines



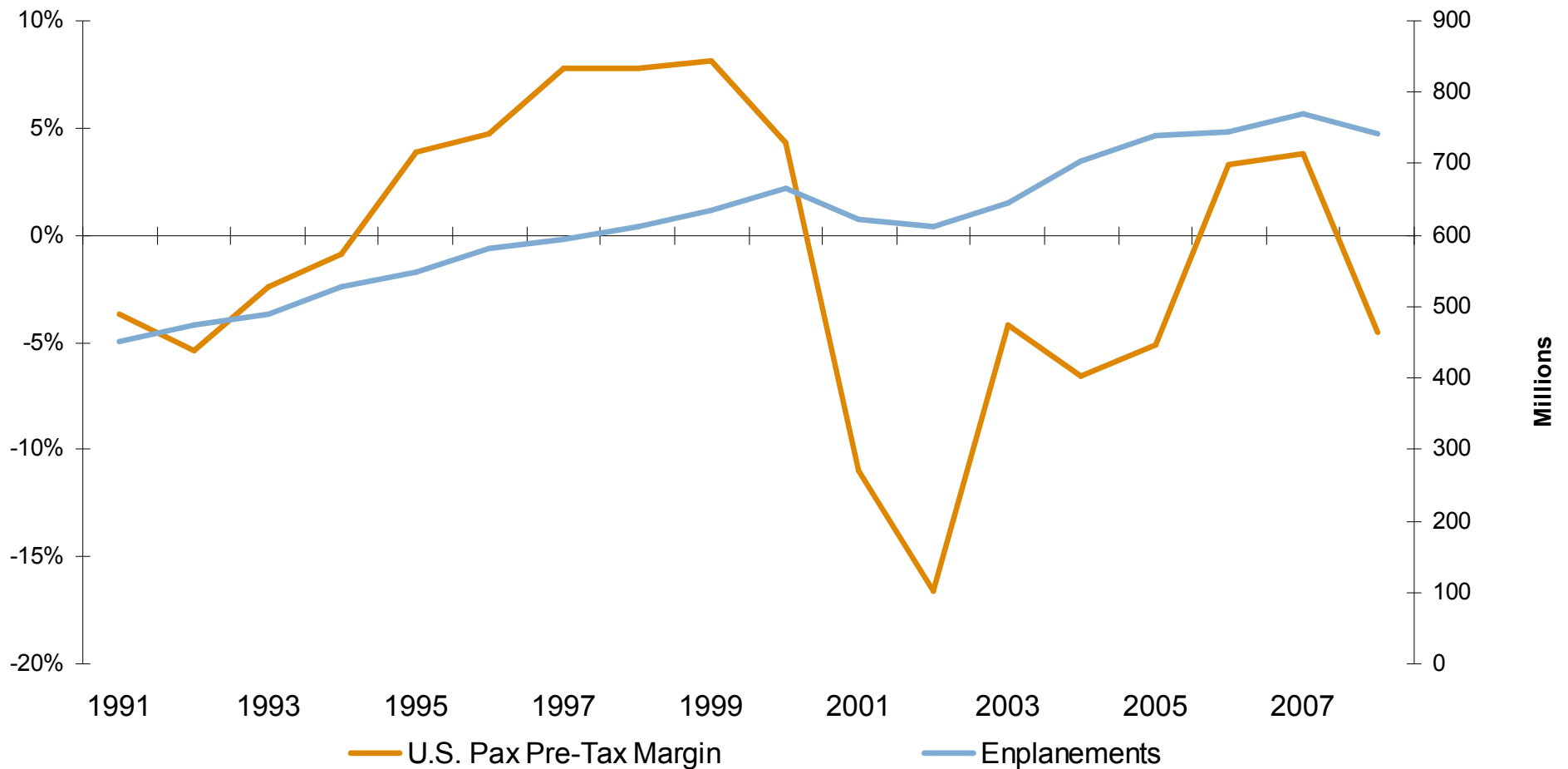
# 2

## HISTORY OF AIRPORT STABILITY VERSUS AIRLINE VOLATILITY

## Enplanements versus Airline Profits

Relatively steady enplanement growth versus highly volatile airline profits

Passenger Airline Operating Margin and Airport Enplanements



2008 figures are estimates  
Source: Airline reports, ATA, BTS

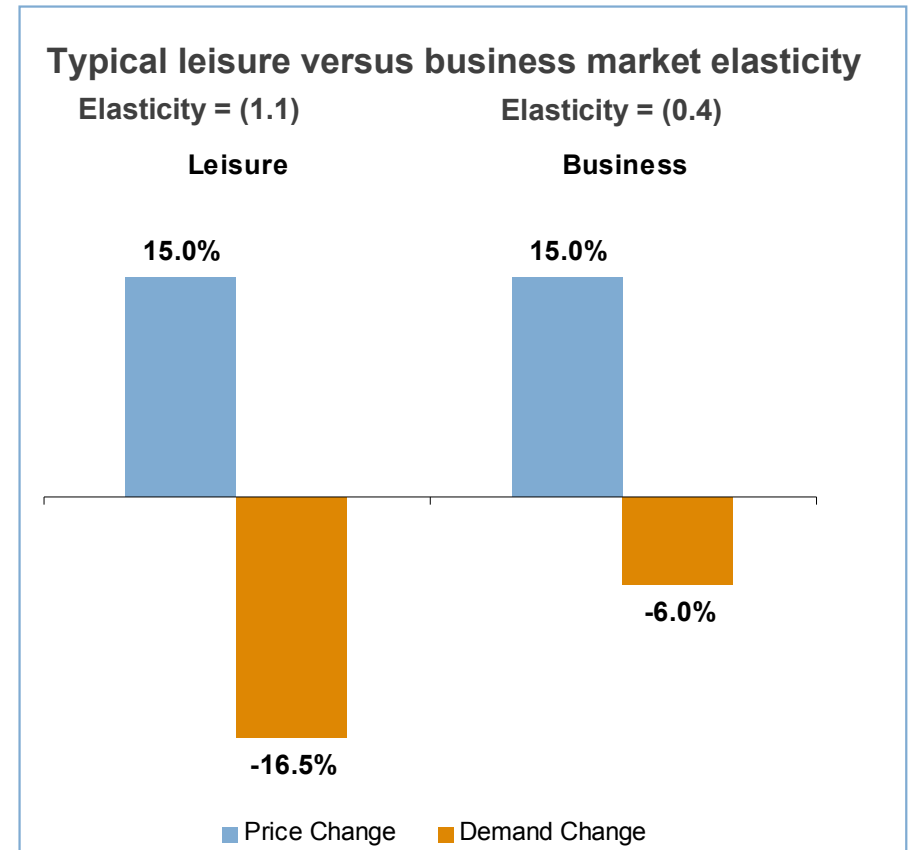


## CAPACITY CUTS - INITIALLY DRIVEN BY THE FUEL COST SPIKE

## Fuel Spike Impacts

As costs increased, airlines cut capacity to focus on higher fare passengers

Hardest Hit	Reason
Markets served with small aircraft – Bakersfield, San Luis Obispo, Monterey	High fuel cost increases cost disadvantage of small aircraft
Leisure markets – Oakland, Sarasota	Leisure more sensitive to price increase. Deeper long-haul cuts; fuel is higher % of cost
Secondary hubs – Cincinnati, St. Louis, Cleveland	When system contracts, smaller hubs suffer 1 <sup>st</sup>
Point-to-point markets – Raleigh to Austin, Kansas City, Jacksonville	When system contracts, these markets can be served through hubs







## CONTINUING CAPACITY CUTS . . NOW DRIVEN BY WEAK DEMAND

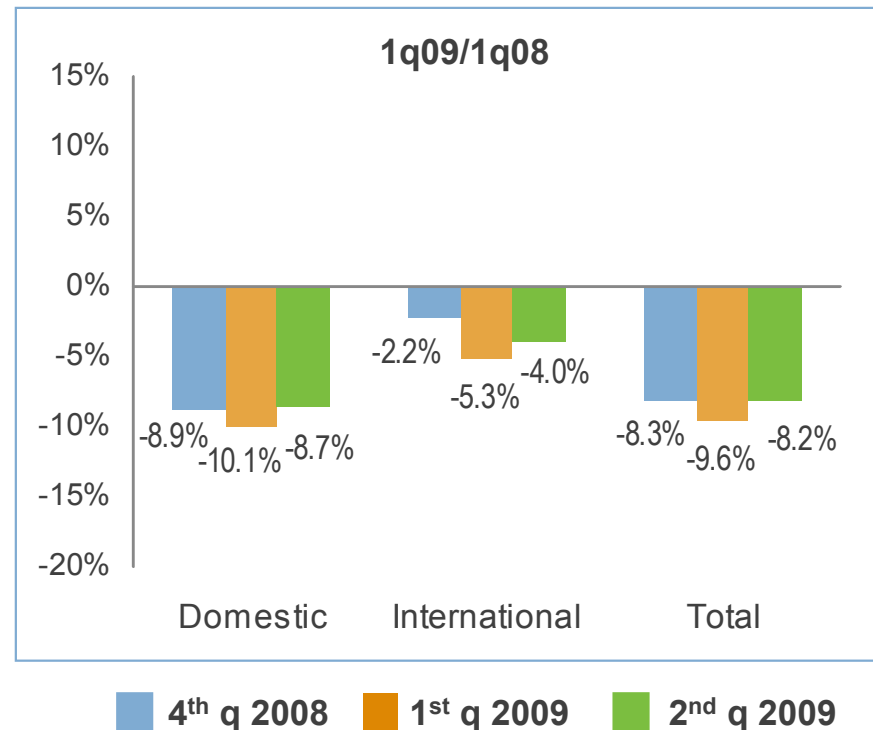
## Deep Capacity Cuts Continue and Increase Slightly in First Quarter 09

Cuts made in response to fuel cost increase turn out to be the almost the same cuts required for the decrease in demand

### Changes since fuel spike has ended

- International demand now dropping
  - Will result in capacity cuts following peak summer season
- Long haul leisure now at less of a disadvantage because of fuel price drop
- Overall weakness now in business and premium passenger demand
  - More difficult to adjust route system than if leisure demand weakness

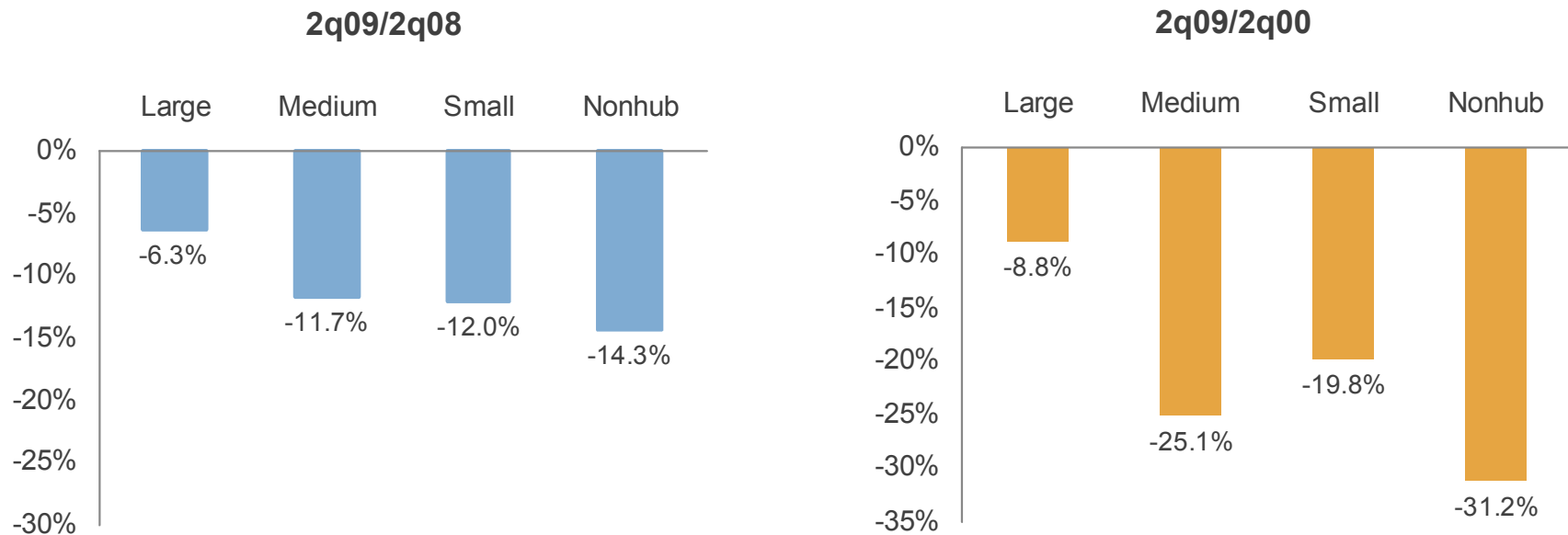
Change in Seats Compared with Prior Year  
U.S. Airports (All Carriers) Domestic and International



Source: OAG

## Different Impacts on Different Airport Categories – Large Airports Cut the Least, Nonhubs Cut the Most

Change in Seats By Airport Size  
Short-Term and Long-Term

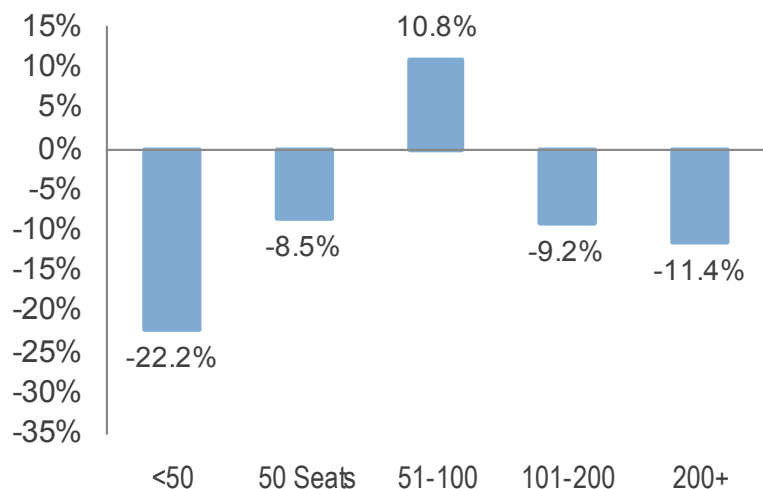


Source: OAG 2<sup>nd</sup>qtr, 2000, 2008, 2009

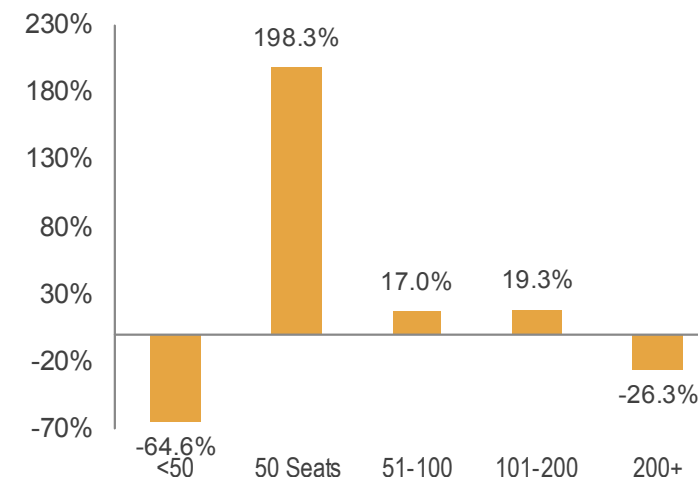
## Small Aircraft, Less than 50 Seats, Are Leaving U.S. Commercial Markets

### Change in Seats By Aircraft Size

2q09/2q08



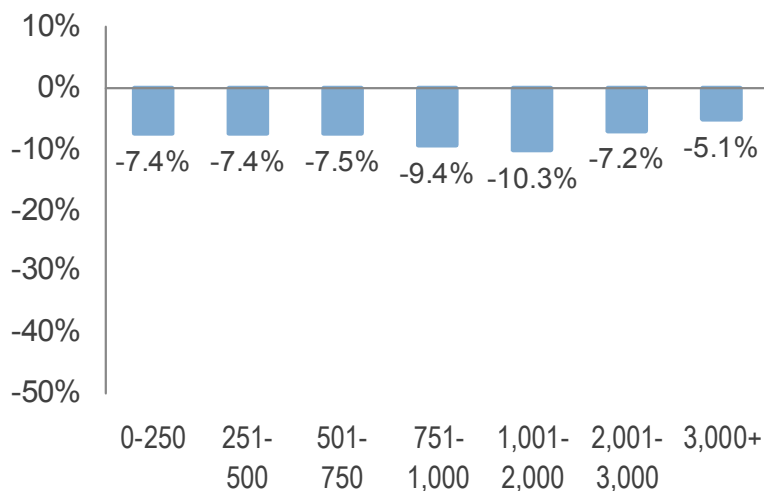
2q09/2q00



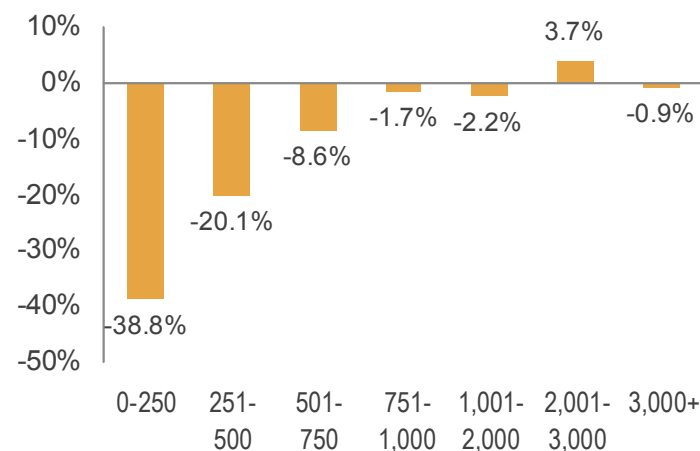
## Since 2000, Short-Haul Capacity Cut the Most, but Not over the Past Year

### By Stage Length

2q09/2q08



2q09/2q00





**A**IRLINES HOPE THE DROP IN COSTS  
EXCEEDS THE DROP IN DEMAND

## But Revenue Projections Have Been Cut Repeatedly

### What You Read

“Revenues would have to decline more than 20% to offset fuel cost savings\*” – Analysts and Airline Executives

Only 9/11 resulted in an industry revenue decline of 20+% . . . . That is very unlikely to happen again” – Multiple Analysts

Particular causes for concern – premium and international traffic

### Context

However, airlines were unprofitable when fuel costs were at peak

Industry revenue declines compared to prior year:

December 2008:	-5.8%
January 2009:	-11.7%
February 2009:	-19.4%

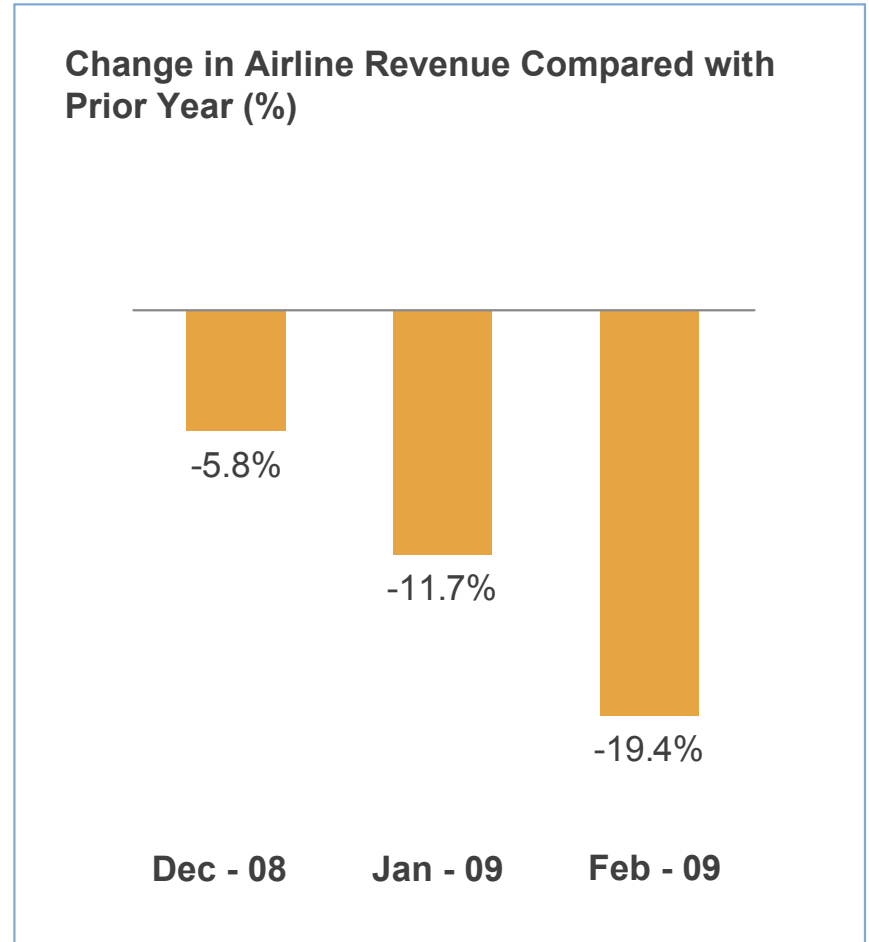
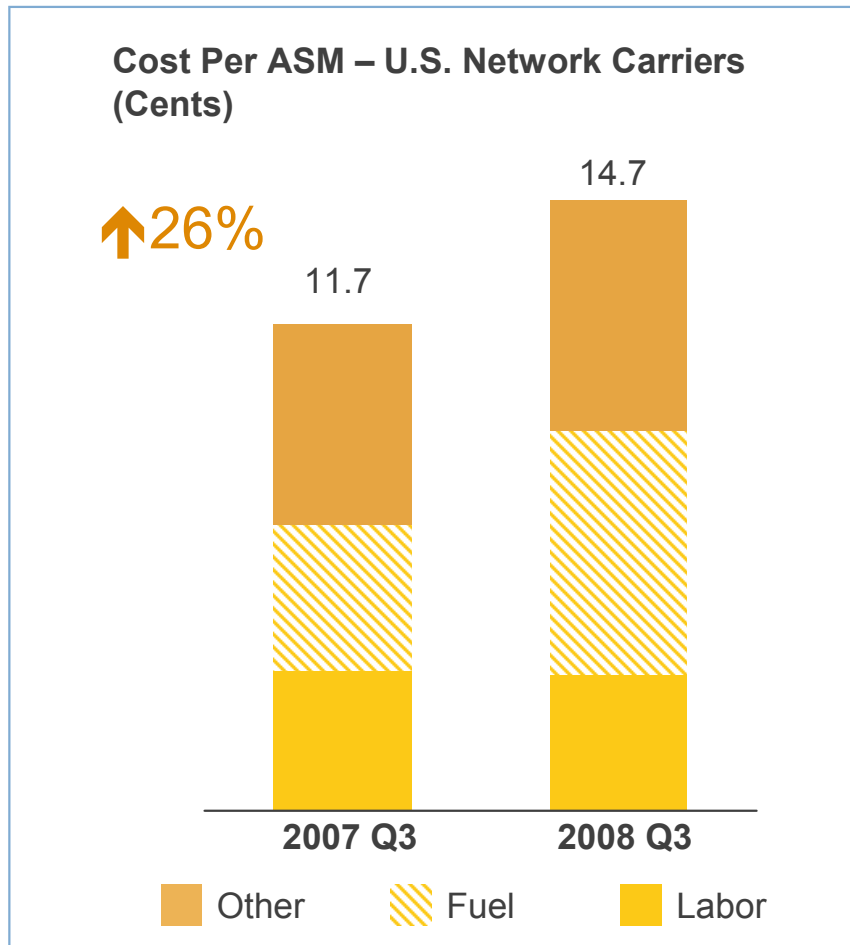
“Industry revenues from premium paying passengers were down in January by at least a quarter” – IATA



WHEN DEMAND STABILIZES, NEW  
VOLATILITY IN AIRLINE COST  
STRUCTURE MEANS AIRLINES WILL  
BE RELUCTANT TO ADD CAPACITY

## Having Seen the Largest Spike Ever in the Airline Cost Structure, Airline Planners Are Reluctant to Assume that Lower Fuel Costs Are Here to Stay

... And now we may be in the midst of the largest demand drop ever



▶ **Grounded aircraft are not returning;  
New aircraft orders are sparse and primarily replacements**

Source: Oliver Wyman Planestats.com





WELCOME TO THE NEW WORLD  
OF HIGHER RISK

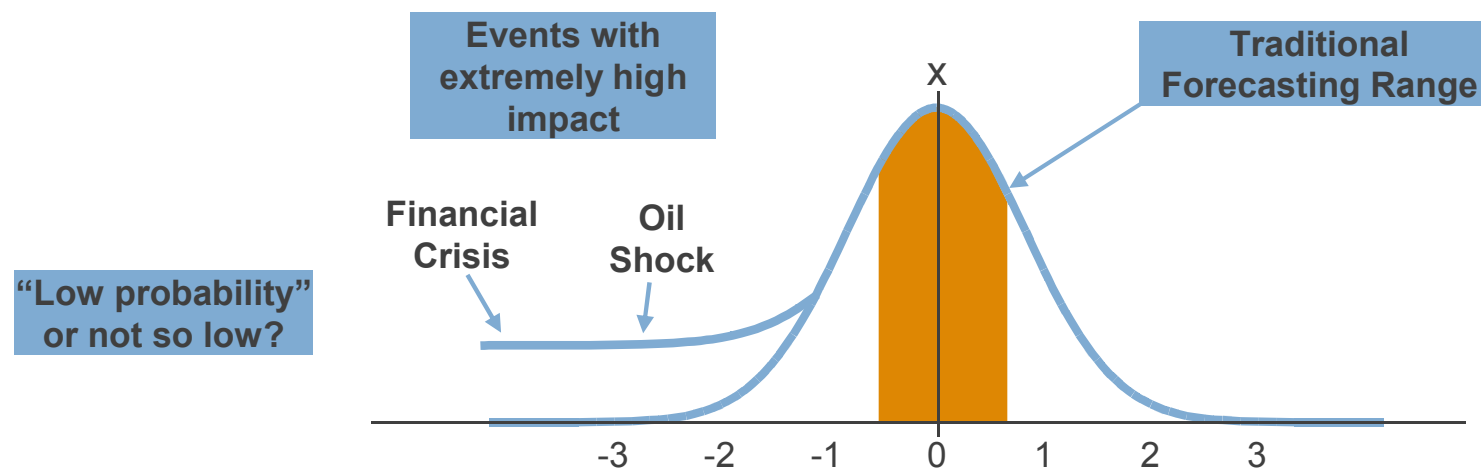
## New World of Higher Risk

### Forecasting – No longer just about straight-line extrapolation

- Driver-based
- Scenario modeling
- Sensitivity analysis
- Assessing and prioritizing risks
- Developing mitigation strategies

**“Since 9/11, it’s the most volatile market we’ve seen and the most difficult to predict” – Continental**

**“Economic environment has never been more uncertain, certainly in [our] history.” –Southwest**



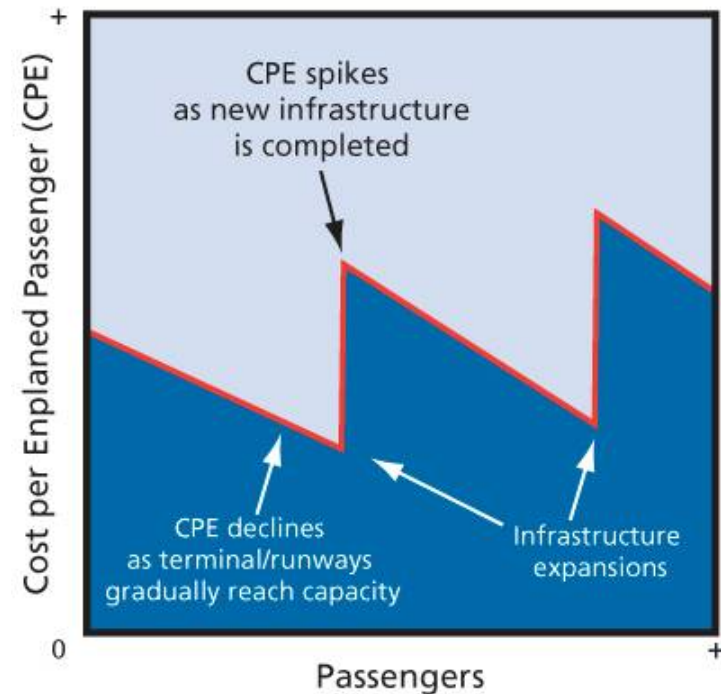


# AIRPORT RESPONSES

# Airport Responses Have Focused on Controlling Spending and Finding New Revenue Sources (part 1)

## Controlling Spending

- Operating cost reductions
  - Hiring and wage freezes
  - Staff reductions
  - Travel and training cuts
  - Outside service cuts
- Capital program re-evaluations
  - Debt service may be the largest single expense item for an airport
  - Programs have long duration and cannot easily be started and stopped
  - Airports are focusing on:
    - Prioritized spending
    - Modular, incremental growth
    - Demand-driven projects based on new market realities
  - But are lower demand and increased volatility a short-term or long term problem?

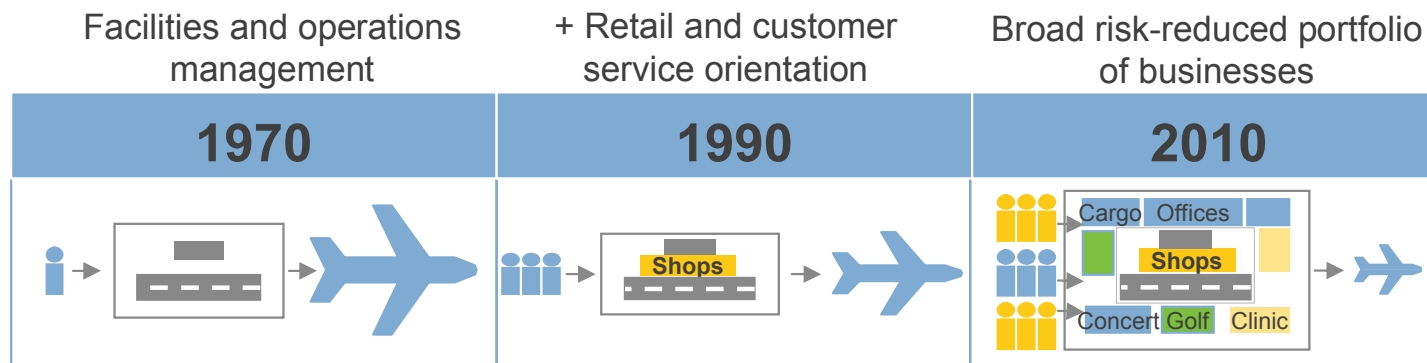
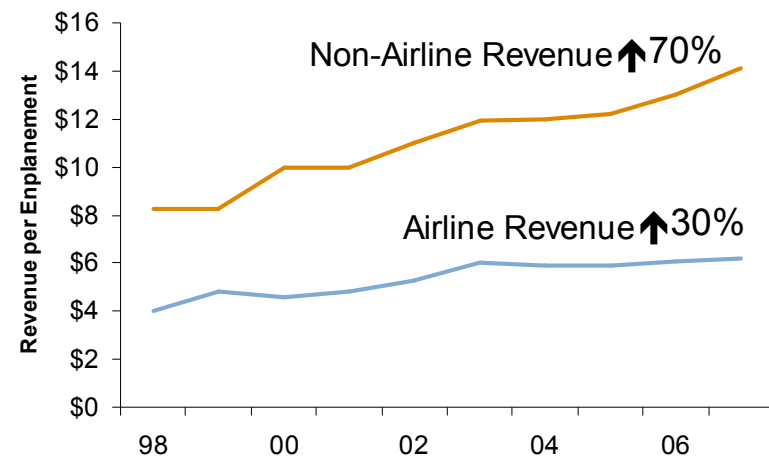


# Airport Responses Have Focused on Controlling Spending and Finding New Revenue Sources (part 2)

## Finding New Revenue Sources

- Increased emphasis on non-airline revenue
  - Retail, parking, and other non-airline revenue continues to grow
  - But most non-airline revenue is driven by enplanements
  - Airport retail (more dependent on enplanements) versus airport cities (less dependent on enplanements)

**U.S. Airport Revenue Per Enplaned Passenger  
Airline and Non-Airline**



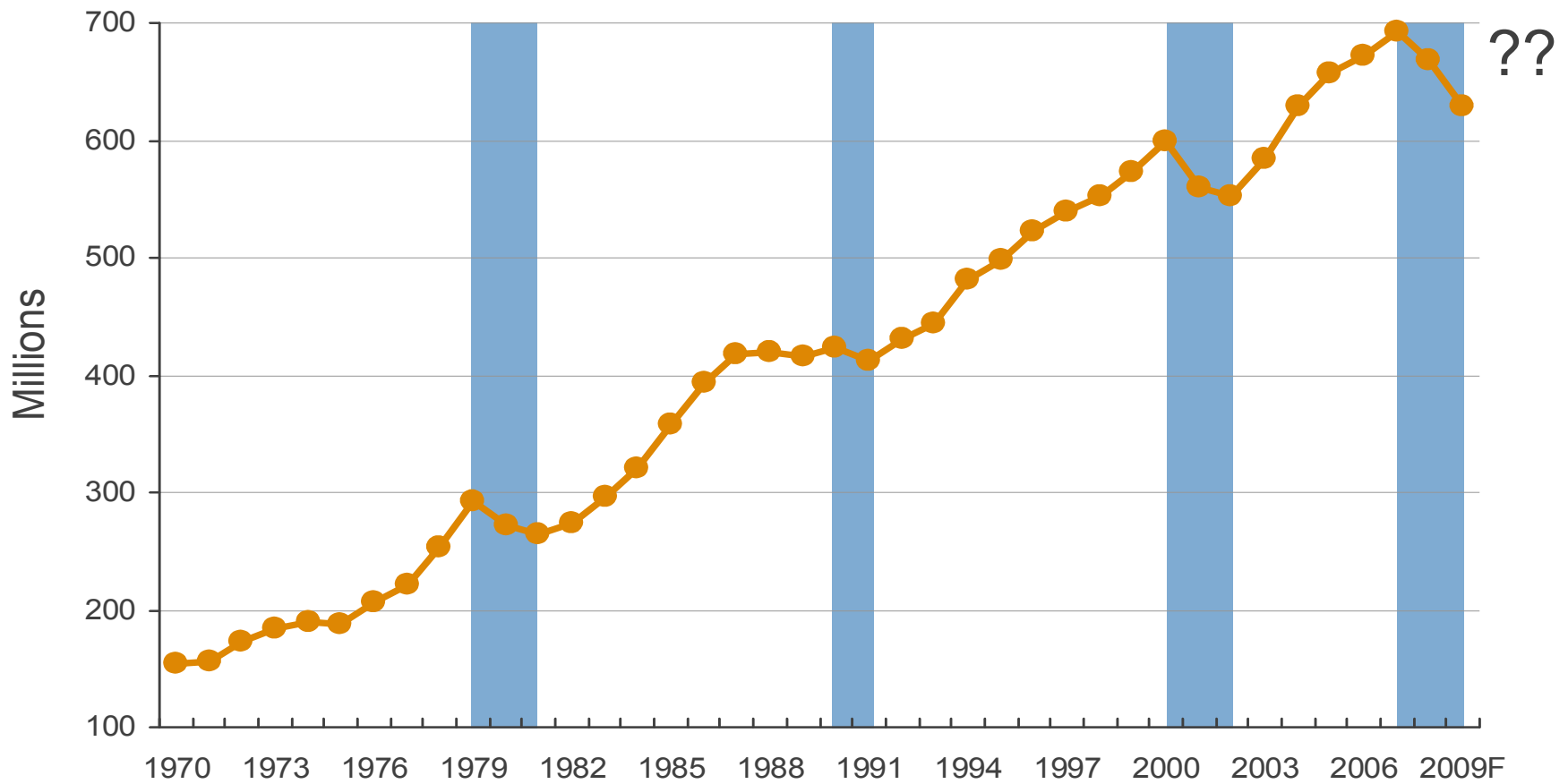
Source: FAA



WHAT WILL THE RECOVERY LOOK LIKE?

## Past Recoveries Have Been Strong












US Airline Domestic Passengers



Source: Air Transport Association

## How Strong Will the Recovery Be?

Past strong recoveries were driven by strong economic growth and declining airfares

	1980-81	1990-91	2001-02	2010+?
<b>Backdrop</b>				
<b>Economic Recovery (GDP)</b>	 +4.5%/7.2% in 1983/84	 +3.7% 1992-2000	 +2.9% 2002-07	
<b>Airfares</b>	 -11.1% in 1982	 -5.8% in 1992	 -1.3% 2002-07 *Security shock diminishes	
<b>Result</b>				
<b>Passenger Growth</b>	 +9.5%/yr 1982-86	 +4.2%/yr 1992-2000	 4.7%/yr 2002-07	<b>weak</b>

\* Passengers returned as the security shock diminished

See excellent presentation by Roger Schauffele, FAA-APO, "US Airline Industry: Will traffic come back to historic trend?", Transportation Research Board, January 13, 2009





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## CONCLUSIONS

### Preparing for Lower Demand and Higher Risk

- Depth and duration of demand drop are unknown
  - Questionable whether the fuel cost drop will exceed the demand drop
- Fuel and demand volatility make airline planners more risk adverse
  - Grounded aircraft are not returning
  - New aircraft orders are sparse and primarily for replacements
- Increased pressure to search for non-airline revenue and cut airport costs to avoid per-passenger cost increases
  - But important non-airline revenue still tied to enplanements – parking, rental cars, concessions, so search for new airport revenue sources
  - High value versus low value passengers?
- Strength of recovery and future demand are uncertain

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